Savaria – Sometimes a little boring is better

Capitalize for KIDS

Monthly Manager Insight

CapitalizeforKIDS.org

The NewGen Equity Long-Short Fund seeks to balance steady risk-adjusted performance with capital preservation in order to deliver a unique return stream that can provide real diversification benefits to investors.

Incepted in 2012, the fund combines a stock-specific, catalyst-driven investment approach overlaid with fundamental research. The strategy aims to minimize market exposure while capturing returns in individual stocks from both the long and short side. The fund is managed with liquidity and capital preservation as core values. Incorporating an active risk management process, the fund seeks to capitalize on opportunities in the equity market when price discrepancies and valuation dislocations occur due to event specific catalysts.

Summary

Savaria Corporation is a Canada-based company, which offers a range of stairlifts, platform lifts, and residential and commercial elevators.

Ticker	TSX: SIS
Price	CAD$ 15.26
Mkt Cap.	CAD$ 577.91M
Div/Yield	CAD$ 0.06/1.70
52 Wk. Range	CAD$ 8.30 - 17.55
EPS	CAD$ 0.36
P/E:	42.57x

12 Month Performance

As of EOD July 17, 2017

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Sometimes a little boring is better

The Canadian equities markets are often fraught with volatile situations, be it in mining, energy, small cap technology, or most recently the plethora of cannabis related companies to list on the public markets. This creates a rather dynamic environment that doesn't often let the typical investor sleep well at night, and we tend to forget that in Canada sometimes it is better to focus on less crowded trades. Against this backdrop, we like to find businesses that demonstrate operational consistency with identifiable catalysts.

Savaria (SIS-TSX) is an accessibility company purchased in 1989 for $200,000 by the current CEO, Marcel Bourassa when the business had sales of $200,000. The company is a North American leader in personal mobility products and does business in two segments: Accessibility (stairlifts, elevators, wheelchair lifts ect.) and Adapted Vehicles (van conversions). Over the past 20 years Marcel has grown the company into a $670M market cap, acquisition focussed leader with a $230M revenue run-rate, which includes its recent acquisition of Span-America Medical Systems. The accessibility industry is benefiting from major demographic tailwinds, which should persist into the foreseeable future - an aging population and a willingness to spend money to facilitate the lifestyle of those individuals. Additionally, governments are mandating increased wheelchair access to public and commercial spaces.

Old school alignment with shareholders

Savaria demonstrates old school alignment of company management with shareholders. Over the years, management has kept the majority of its holdings in the company and currently own approximately 37% of the outstanding shares. In the most recent equity financing Marcel Bourassa (Chairman, President and CEO) and Jean-Marie Bourassa (CFO) added to their already significant insider ownership positions by acquiring a combined 10% of the offering (276k subscription receipts). In addition, the founders draw low salary/bonus compensation and do not grant themselves stock options or RSUs. The lion's share of management compensation comes from dividends.

A defensible franchise with a runway for growth

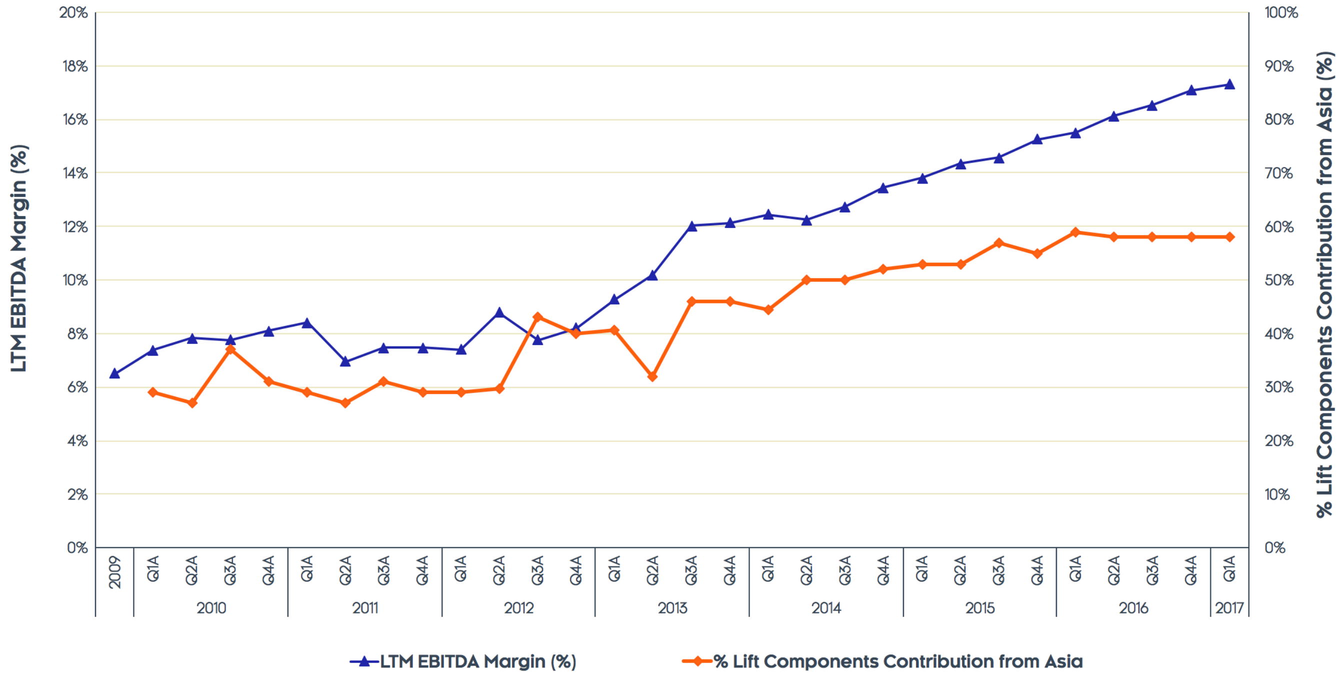
Savaria's growth profile, strong balance sheet, growing free cash flow and acquisition strategy make it a compelling company to own from a catalyst standpoint. Most of Savaria's competitors are owned by private equity who are looking to maximize medium-term cash flow rather than drive growth or market share.

The company's most recent acquisition of Span-America (SPAN-NASDAQ) was highly complementary to its existing product line, with almost no overlap in existing markets, customer base or products. The acquisition gives Savaria US manufacturing, and gets the company into the institutional and government markets with a whole new product line that pairs well with its existing offering. Revenue increased by 70% to over $200 million and EBITDA by 50%. Although mildly accretive to EPS, the acquisition was 25% accretive to FCF per share and sets the company up for further near-term acquisitions. By funding part of the acquisition with the equity offering, SIS has kept flexibility on its balance sheet with room for an acquisition to potentially add an incremental $10 million in EBITDA (similar to SPAN) without additional equity. SIS plans to reach $500 million revenues within 5 years and the CEO sees plenty of strategic M&A opportunities which could further enhance the business.

It's not a "rollup"

As opposed to a "rollup" strategy of buying businesses and cutting costs, Savaria has demonstrated a proven track record of growth for practical reasons. Years ago, Marcel sent his son to China for 7 years to establish the company's low cost manufacturing which gave them a cost and specialized manufacturing advantage over its competition. The acquisition of Silver Cross provided 16 retail franchise locations within the Greater Toronto Area plus 5 in the US - since then SIS has taken some locations and made them corporate stores. Shoppers Drug Mart's Home Health Care's

Source: Company Reports



Rolling LTM EBITDA Margin

automotive unit doubled the size of SIS's auto-conversion operation and materially increased market share and gave the company coast-to-coast retail presence in the major cities. This included a warehouse in Burnaby, B.C. which will be used for distribution as well.

Savaria has now added a US distribution channel to access the US healthcare market with the SPAN acquisition. Currently Span-America brings to Savaria a direct sales force with access to long term care and acute care institutions across North America, the US department of Veterans affairs, and leading US healthcare distributors such as McKesson. This distribution channel should lead to a marked acceleration in revenues for Savaria's new ceiling lift in the near term, and for other healthcare-related products in the long term. In addition, approximately 10% of Span-America's sales are to the US home care market, which is a market that Savaria knows and serves with its lift products and through its Silver Cross retail network in Canada.

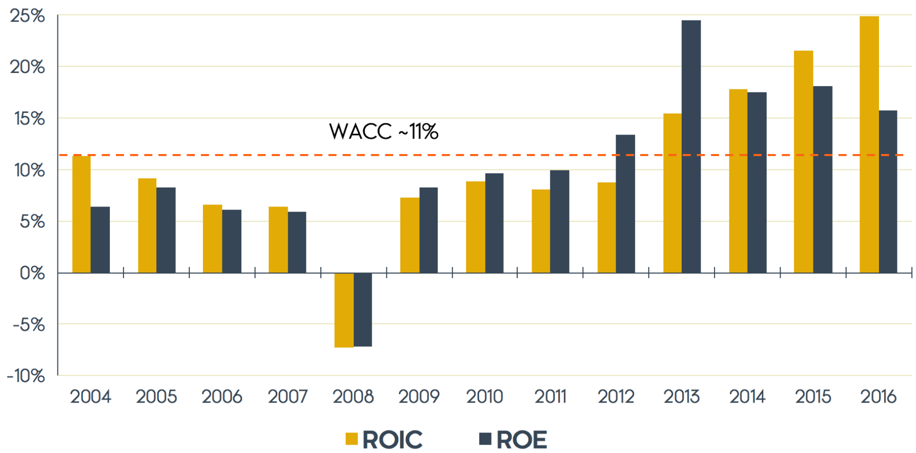
Acquisitions should continue to drive multiple expansion

Although Span-America's underlying organic growth rate at 3-4% is lower than Savaria's existing business, the company remains comfortable in its ability to generate a long term organic growth rate of 10%. The market

Public Healthcare Equipment Manufacturers

		Mkt Cap	EV	Net Debt / Capital	T12M EBITDA Mgn %	2018/2016 EPS CAGR %	P/E 2018	EV/EBITDA 2018
Healthcare equipment manufacturers								
HILL-ROM HOLDINGS INC	HRC US	6,964	9,877	61%	20%	51%	19.3x	12.5x
INVACARE CORP	IVC US	585	681	8%	-1%	-39%	nm	25.5x
STRYKER CORP	SYK US	68,934	74,149	27%	28%	25%	20.6x	15.3x
HENRY SCHEIN INC	HSIC US	18,481	21,219	25%	9%	12%	22.7x	14.4x
WRIGHT MEDICAL GROUP NV	WMGI US	3,563	4,335	45%	2%	nm	nm	26.8x
Average		**19,706**	**22,052**	**33%**	**12%**	**12%**	**20.8x**	**18.9x**
SAVARIA CORP	**SIS CN**	**632**	**597**	**-69%**	**16%**	**42%**	**22.5x**	**13.2x**

Source: Company Reports, LBS Estimates



ROE and ROIC Showing Positve Momentum

has rewarded Savaria with a higher earnings multiple based on its strong revenue and EPS growth over the past several years. This currency has enabled Savaria, through the Span-America acquisition, to expand its revenue base by 60% and EBITDA by 26% while only increasing its share count by 7%. Balance sheet leverage remains favourable at less than 1.0x EV/EBITDA (2H17 annualized). A strong equity currency is clearly an asset for an acquisition-minded company like Savaria. At 13x 2018 EV/EBITDA the company trades at a significant discount to the 19x EV/EBITDA for its US Healthcare equipment manufacturer peer group which we feel is where Savaria can trend towards over time. Although there are no perfect public comparable companies, the current multiple is indicative that management has executed well over time and will be rewarded by the market as management continues to acquire complimentary businesses.

Conclusion

Savaria has recently concluded a transformational acquisition which extended a consistent track record of acquiring companies for the right reasons. The landscape remains very conducive towards future growth and a tuck in to the legacy business or a western US based lift company could make sense as catalysts to drive the company towards management's goal of $500M in sales in the next 5 years. Meanwhile, we have a double digit, volume-driven growth story that has just opened up a brand new market. The company has no debt, strong EBITDA margins and above average EPS growth which may seem strange in a world of overnight successes. Perhaps taking the time to look at a company that has built itself up over the past 30 years may seem like a bit of a slog, but sometimes there is truth to the saying "a little boring is better".